

VZCZCXYZ0013  
OO RUEHWEB

DE RUEHEG #1885/01 0861550  
ZNY CCCCC ZZH  
O 271550Z MAR 06  
FM AMEMBASSY CAIRO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6946  
INFO RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L CAIRO 001885

SIPDIS

SIPDIS

DEPT FOR NEA, NEA/ELA  
NSC FOR DNSA ABRAMS

E.O. 12958: DECL: 03/27/2016  
TAGS: [EAID](#) [PREL](#) [PGOV](#) [KDEM](#) [EG](#)  
SUBJECT: RESTRUCTURING ESF ASSISTANCE TO EGYPT: U.S.  
DELEGATION PUSHES GOE TO DEVELOP NEW PROPOSALS

Classified by Ambassador Francis Ricciardone for reasons 1.4  
(b) and (d).

-----  
Summary  
-----

¶1. (C) Discussions between a joint USAID/State delegation with GOE ministers on March 20-21 moved forward considerably our efforts to restructure ESF. Specifically, the GOE:

- appeared effectively, if not explicitly, to accept conditionality (via benchmarks) on future U.S. economic assistance,
- agreed to focus future economic assistance on four sectors, and
- agreed to present proposals (with benchmarks) for the four sectors in time for a next round of negotiations in April.

The GOE will undoubtedly try to minimize conditionality by seeking as much up-front funding as possible. Some of the ministers continued to push wildly unrealistic hopes for increased U.S. assistance in various forms, including debt relief. The GOE's four proposals will be the best indication of how seriously and urgently the GOE will pursue a new way to conduct our assistance relationship. End summary.

¶2. (SBU) USAID Assistant Administrator for ANE James Kunder, accompanied by NEA DAS Scott Carpenter, NEA DAS Liz Dibble, NEA Senior Advisor King Mallory, and USAID's Lyn Dunn joined the Ambassador, USAID Director, and ECPO counselor and poloff (notetakers), in meetings with the GOE on March 20-21 in Cairo to discuss proposals for restructuring the economic assistance program.

-----  
GOE Goals  
-----

¶3. (C) During the March 20 session, the GOE side, led by Minister Aboulmaga who was joined by both MIC staff as well as several ministers (Health, Local Development, Education, Higher Education, and Social Solidarity) as well as senior staff of other ministries (MFA and Finance), reviewed its proposal calling for four funds (in democracy-decentralization, business development, human resources, and technology transfer/R&D). The GOE also proposed two new "MOUs," linked to boosting current GOE reform efforts in taxation and budgeting and revamping the GOE's subsidy program. Finally, the GOE requested that the USG consider applying a debt reduction package similar to the "Pakistani model" to the GOE's debt to the USG. The GOE side argued that USG support for the GOE proposal would play a critical role in enabling Egypt to qualify for OECD

membership by 2025, and that USG support would win public diplomacy benefits for the USG with the Egyptian public.

¶4. (C) The U.S. delegation noted that debt reduction would be practically impossible, and advised that a GOE focus on four sectoral support programs (underpinned by MOUs which would govern the release of cash in response to the GOE achieving negotiated benchmarks) would be the best approach to follow.

-----  
A Model for How to Proceed?  
-----

¶5. (C) At the Ambassador's suggestion, after the conclusion of the March 20 session, Senior Advisor Mallory, ECPO counselor, USAID staff, and Ministry of Health staff and McKinsey consultants (working on an ongoing MOH strategic planning effort) met to draft an illustrative MOU for the health sector, patterned loosely after the existing financial sector MOU. Both sides agreed that the document was intended solely to determine if it were possible to identify benchmarks in GOE health policy reform that could be linked to USG cash transfers and USG programmatic assistance (and not to serve as a binding first draft of a MOU). Minister of Health El-Gabaly--a no-nonsense physician and erstwhile private hospital manager who is trying to revamp Egypt's decrepit public health care system--eagerly embraced the exercise. The resulting document, which both sides agreed was a useful first step, proposed a series of hypothetical benchmarks--in human resources training, institutional reform, and medical insurance reform--which, if achieved, would result in the release of to-be-negotiated cash transfers.

-----  
GOE Seeks Up Front Funding for New Programs  
-----

¶6. (C) During the March 21 session, much of which was attended by Minister for Investment Mahmoud Mohieldin, Minister Abounaga and Minister for Social Solidarity Ali El-Moselhy continued to make the GOE's argument that USG assistance would be most effective if it were to fund programs--e.g., a proposed social solidarity "smart card, as good as cash" for the provision of services to the citizenry, as a means of assisting GOE plans to get rid of blanket subsidies. In response to a question from the U.S. delegation about the role for NGOs in Egypt's reform process, Minister Moselhy (whose ministry supervises Egypt's NGOs) suggested that he would like to conduct a full survey of Egypt's 20,000 NGOs, in order to enlist them in the GOE's effort ("as an executive arm of my ministry") to improve the distribution of social services. Minister Mohieldin suggested that President Mubarak's campaign promises and ongoing reform platform may also offer possible benchmarks for future assistance agreements, but with the caveat that many of the President's reform programs "cannot be benchmarked" and need to be supported "on trust."

-----  
Kunder Delegation Urges Additional Policy Reform  
-----

¶7. (C) Summarizing the USG position, USAID Director Ellis urged the GOE side to think about larger policy reforms (e.g., the costly, inefficient legacies of the Nasser era, such as constitutional guarantees of free health care and free education) which, if achieved, could serve as benchmarks for the release of future ESF tranches. Minister Abounaga demurred when the U.S. side urged the GOE to send an empowered negotiating team to Washington with Investment Minister Mohieldin in early April, but she welcomed a return visit to Cairo in mid-April by USG negotiators. By that time, she said, the GOE would be able to prepare draft proposals for follow-up discussions. MFA A/S Shaker pushed hard for early re-engagement of the two sides. Off line, she suggested that the U.S. side discreetly "help" the GOE

officials--presumably in Abounaga's Ministry for International Cooperation--with drafting the four GOE proposals. A/S Shaker indicated she would stand ready to assist.

-----  
Comment  
-----

18. (C) Restructuring ESF for Egypt is going to require a steady, persistent approach, with much prodding and provision of content and impetus from our side. Having said that, the first round of negotiations about restructuring the economic assistance program advanced the ball considerably. At the end of the two days of meetings both sides had agreed to four overarching sectoral themes. The U.S. side noted that some up-front funding could be accepted in order to finance some of the work the GOE will undertake and the Egyptian side agreed to a funding mechanism based on benchmarks. The participants also agreed the GOE would prepare proposals with benchmarks for the next round of negotiations in late April. The GOE's most skeptical component--Abounaga's MIC--seems to have moved from outright opposition to wary engagement with us in shaping the kind of changes that we believe are urgently needed. Even her element of the GOE appears to understand the need to move quickly to draft credible proposals to address our requirements that ESF be restructured in a way that links release of future cash transfers to demonstrated GOE policy progress, including in the crucial area of democracy. We believe that the GOE has received the message that benchmarks and conditionality will be essential components of our future assistance program. The GOE naturally will continue to press for most assistance to be provided up front (arguing the need to jump-start reforms), and will try to resist our effort to hold back most assistance money until they have met key benchmarks (often in the areas of tough policy reform). The proposals that the GOE drafts will indicate how far the GOE has accommodated itself to the new realities of our assistance goals. End comment.

RICCIARDONE